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## CROOKED TAXATION.

BY THOMAS G. SHEARMAN.

“What’s in a name?”

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Experience shows that names are often equivalent to things, for some important purposes. There is no time now for illustration ; but indeed none is needed. The long and universal popularity of methods of taxation, which in fact oppress and even plunder those among whom they are popular, is the best possible illustration of the value of a name. For not merely the popularity of these forms of taxation, but even their endurance for a single year, out of the centuries during which they have existed, is due entirely to the judicious selection of a name.

“Indirect taxation” has a not unpleasing sound. There is nothing in it suggestive of fraud, oppression or inequality. It seems to stand at least upon a footing of equality with direct taxation; and, when it is explained as a method by which taxes are collected in small amounts, at the convenience of the taxpayer, while direct taxation requires payments in large amounts, at the convenience of the State, indirect taxation appears in the light of a positive boon to the masses of the people.

“Crooked taxation” on the contrary has a very unpleasant sound. It would be hard to make it the war cry of a popular movement. Yet is not this a far more accurate definition of the thing which is really meant by the other name?

There is in existence, in nearly all nations, a system of taxation which bears certain uniform characteristics.

The taxes under this system are always paid to the government by persons who are authorized and expected to recover the amount from some one else, with interest and a profit, upon which the law places no limit.

No one can tell the precise amount actually contributed to the support of government by any one person under this system.

No one can tell how much of the money paid by the final taxpayer goes to the support of government or how much goes into the private purse of the individuals.

A large portion of the final tax burden is invariably perverted to private use; while, in many cases, nine-tenths, even nineteen-twentieths, is thus perverted.

Private property is thus forcibly taken for private use: an operation which every court in civilized countries declares, in so many words, to be "robbery under the forms of law."

The amount of the tax has only a remote connection with the actual needs or expenses of government. It may be and in fact has been, in several countries, for ten or twenty years together, either much more or much less than the government needed. The taxpayers often pay a lighter tax, for several years together, under an extravagant and even corrupt government, than they pay under one rigorously economical and honest. This is no accident; it is inherent in the system.

The pressure of such taxation, therefore, has almost no effect in educating the people to demand or appreciate good government.

The more wisely and honestly such a system is administered, the more popular does it make public extravagance and the more unpopular public economy.

Under such a system, a few persons make large profits and easily concentrate their power to perpetuate and extend it, in such form as more and more to diminish the proportion of revenue which goes to the public use, and to increase the proportion in which it is diverted to private use.

Under such a system, the persons who thus profit by what all courts of justice describe as "robbery under the form of law," acquire "vested interests;" interference with which is regarded, by multitudes of honest and unselfish men, as something positively wicked.

Thus, as a necessary result of this system, the right to live by robbery grows to be not merely equal but even superior to the right to live by work. For the right of work is not recognized by law or public opinion, while the right of robbery is.

Under this system, honest men are often forced to abandon honest work and to live upon legalized robbery. At first this application of force is merely incidental; but eventually it is intentional and deliberate. It has been intentionally thus applied for a century in America and for at least two centuries in Europe.

The whole burden of such taxes rests upon consumption and not at all upon wealth. The system actually exempts property from the support of government, and draws taxes only from those who have to spend, and in proportion to their expenses.

Inasmuch as the necessary expenses of the very poor are a hundred times as large, in proportion to their wealth, as the necessary expenses of the very rich, these taxes bear with a hundredfold severity upon the very poor, as compared with the very rich.

Averaging all classes of society under this system, the poor, as a class, invariably pay ten times their proper share of taxes; while the rich pay less than one-tenth of their proper share.

In addition to this the system generally, though not invariably, adds to the cost of supporting the government a private profit so large as to far exceed the whole amount of taxes paid by the rich as a class.

The whole of this private profit goes to a portion of the richer class; thus exempting them as a class from all taxation, and giving them a large net profit from the very fact of taxation.

This system, therefore, perpetually increases the natural savings of the rich; while it almost swallows up the natural savings of the poor.

The tendency of this method of taxation is, therefore:

1. To make the rich richer and the poor poorer;
2. To shift the burden of taxation from those best able to bear it to those least able to bear it;
3. To remove all checks upon the extravagance of government, by making the only persons who know that they pay taxes indifferent as to the amount of taxes, if not actually interested in maintaining needless taxes, for the sake of a profit upon their collection from consumers;
4. To force into existence a class of wealthy men whose income depends upon legalized robbery;

5. To complicate the business of the country with taxation, so that enormous burdens are kept upon the people, for fear that "vested interests" will suffer, if these burdens are removed;

6. To promote bribery and corruption, by making business profits directly dependent upon political action.

### *Discussion.*

Professor Bemis: I arise merely to ask one question of Mr. Shearman, first saying that the paper seemed to me not only an able one, but one with which to a great degree I can sympathize, and on that account all the more I feel justified in asking whether there may not be an exaggeration in one part, due to a certain point to which I would like to call his attention. If I understand it correctly, our honored president has emphasized in his writings upon wages the importance of a standard of living in its relation to wages. Not that that is the only factor, but that it is quite important. In some of the recent works of Professor Clark we have had our attention called to the fact that while the old wage theory as expressed was incorrect, yet that in the relation between the number of workers and the amount of capital there is a tendency toward fixing wages, and that with the increase of the number of workers relative to the number of capitalists, there might be a tendency toward the diminution of wages. If we accept this position, may it not be true that with the increased expense of living of the working classes there may have been—in order to keep up their standard of living—a demand for higher wages,

and a consequent shifting, in the process of time, of some part of the burden, and its bearing in part by the wealthier class?

Mr. Shearman: That no burden falls exclusively and invariably upon any one class, I think we should probably all agree. Professor Seligman has very ably shown that the occupier does sometimes bear even a portion of the tax on ground rent. But we have to do in economic science with large average results. I do not think that these facts to which our friend has referred affect the discussion of this problem as much as \$50,000,000 in any one year, but if they affected it by as much as \$250,000,000, which would be a wild estimate, still it would make no practical difference, and in the long run, in the course of thirty or forty years, I do not think they would affect it at all.

Of course the standard of living has a great deal to do with it. I think it lies at the root of the wage question. Since the question has been raised I would say that that explains a great deal of the misunderstanding which prevails upon the question as to whether the poor have grown poorer. Now all general statements must be used with large qualification. The exultation which we show over the condition of the poor means only that there has been a universal rise in the standard of living, but the minimum of wages falls as irresistibly down to the standard of living now as it ever did. My idea of the true theory of wages in that respect is that there has theoretically to be conceived the last laborer that must be had in order to carry on industrial pursuits. The price at which that last man will consent to work, the standard of living which he will

insist on maintaining, the price which must be paid to the last necessary man, in my judgment fixes the price for all the others.

Mr. Wood: One point upon which I understood Mr. Shearman to place some importance is that where indirect taxation prevails, the tax-payers are indifferent to the expenditures of the government, whereas, under the system of direct taxation, they are believed to be far less indifferent, and to exert a much more careful scrutiny. If that be true, I suppose it will follow that whereas the expenditures of our national government are defrayed out of indirect taxation, and the expenses of our local governments are defrayed out of direct taxation, we are therefore to assume that our local governments are conducted in a more business-like and a more economical way, with less waste of their resources, and as a citizen of Philadelphia—and I presume these gentlemen from New York will agree with me—I express my gratification to know that our municipal affairs are so much better conducted than those of the national government.

Mr. Shearman: In the city of New York I admit that indirect taxation is carried to its ideal. It is about as perfect in its crookedness as anything that can be devised. But in the State of New York, although there is very little genuinely direct taxation, still the farmers think that there is a good deal, and the result is that in the interior of the State of New York nothing has been so popular, since I have known anything of New York politics, as a reduction of the State taxes, and nothing more popular than the increase of the national taxes, because the one they believe to be direct and the other indirect.



Mr. C. F. Adams: I think both of these gentlemen have taken occasion to warn the audience that there is not an absolute impoverishment of the lower classes, but a relative one. I think that it is injury not to improve as much as possible. It is not necessary to say that any class is totally crushed and impoverished, but if it is prevented from developing as fully as it might, if it is kept down and its progress checked even in a measure, it is there that the wrong lies.